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United States Fidelity and Guaranty Company

Text book of the surety business

Baltimore, Md.

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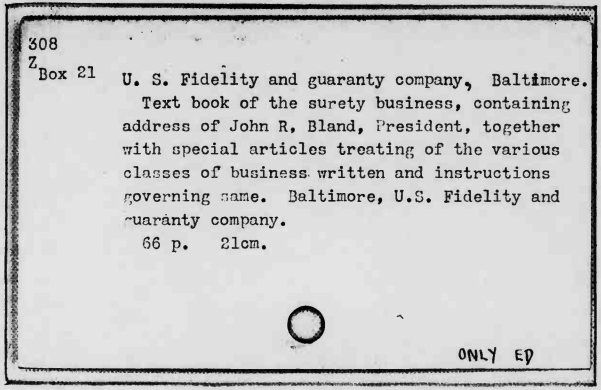

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Z Box 21 U. S. Fidelity and guaranty company, Baltimore.
Text book of the surety business, containing address of John R, Bland, President, together with special articles treating of the various classes of business written and instructions governing same. Baltimore, U.S. Fidelity and Guaranty company.
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TEXT BOOK

OF THE

SURETY BUSINESS

CONTAINING

ADDRESS OF JOHN R. BLAND, PRESIDENT

TOGETHER WITH

SPECIAL ARTICLES TREATING OF THE VARIOUS CLASSES OF BUSINESS WRITTEN AND INSTRUCTIONS GOVERNING SAME

Compiled and Issued by

THE UNITED STATES FIDELITY
AND GUARANTY COMPANY

BALTIMORE, MD.

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TEXT BOOK

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UNITED STATES FIDELITY AND GUARANTY COMPANY

BALTIMORE, MD.

The address, papers and instructions contained in this book are for the private and confidential perusal, benefit and use of the agents and attorneys of the United States Fidelity and Guaranty Company.

Agents and attorneys are especially requested not to give or lend this book to agents or attorneys of other surety companies. We will consider an acceptance of a copy to be on these conditions; otherwise, please return same.

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ADDRESS OF MR. BLAND.

Mr. Chairman and Gentlemen:

Before touching upon the subject of surety insurance, a brief review of those events which led up to and laid the foundation of our present commercial and industrial greatness is permissible.

Remarkable developments have followed one another so rapidly that we are apt to forget that period in the world's history when woman was a chattel, sold to the highest bidder, and man lived in bondage, ignorant and in despair; when the laws were made solely for the rich and aristocratic and when the most cruel and revolting crimes were committed in the name of religion.

To those men and women of Germany and Holland who started the great wave of political and religious reform, to the English who gave us the Magna Charta, the habeas corpus, the loom and the steam engine; to the French who took the lead in the emancipation and education of woman; and to the Italians and Spaniards who taught us world-wide navigation, we owe our improved conditions of to-day.

The best, therefore, of all we possess in law, education and the sciences, is due to the awakening of man, six hundred years ago, to a true realization of his mission. This onward march has not been always steady; evolution has been slow; in fact, there were centuries in which the condition of society might be said to have remained dormant.

But it was by reason of man's appreciation of his powers and purposes in life that the movement has gone onward and upward until to-day we enjoy a citizenship under a Government whose laws afford us all, at least to a degree, a share in the advantages and blessings of higher education, as well as the comforts, if not the luxuries, of life.

What I have said in reference to the gradual evolution of man's

political, religious and social conditions, applies with equal force to business. Until the twelfth century man's use of iron and steel was limited, and the average annual yield of the world's most precious metals—gold and silver—did not amount to more than $5,000,000. The flail was used to thresh grain, and the mortar bowl to beat it into meal; the spinning wheel to make thread, and the hand loom to weave fabrics; while the development of husbandry was limited to scratching the surface of the earth, and commerce was confined to circumscribed limits and individual effort.

The slow evolution of time brought gradual but sure changes in business. The wealth of Solomon or Croesus, from a financial standpoint to-day, pales into insignificance beside that of a Rothschild, a Waldorf-Astor, a Morgan, a Huntington, a Rockefeller, a Gould or a Carnegie. The operations of the great merchants of the Mediterranean appear infinitesimal beside those of Marshall Field, H. B. Claflin and Philip Armour. The famous steel products of Toledo and Damascus sink into insignificance when compared with the output of the United States Steel Corporation. The graneries of the Nile, of Asia and of Europe combined, did not produce as much grain in ten years as the Central West and Northwestern States of this country produce in one year. The mines of the United States, the Transvaal Colony, Australia, Canada and Russia produce more gold and silver in one year—nearly six hundred millions of dollars—than was produced in the world in fifty years prior to the fifteenth century.

The same evolution applies to the business of insurance in all its branches. The sustained need for insurance first arose in the seventeenth century after the great London fire, when a few London and Amsterdam merchants assumed certain fire and marine risks by limiting their liability to a fixed amount, or, to be exact, to an underwriting of ten pounds.

From personal underwriting through men of small capital, who undertook to assume risks for the public, as the system applied three hundred years ago, we have to-day thousands of splendidly-organized corporations resting upon an invulnerable basis. Most

of these are able to meet in full measure such appalling catastrophes as the Chicago, Boston, Baltimore and San Francisco fires, which swept away in forty-eight hours property valued at from fifty to two hundred millions of dollars—a demonstration of the vital need of such institutions, and a tribute to their marvelous management and financial strength. The capital and assets invested in these corporations is almost beyond the imagination of the human mind:

Life,	
Assets	$2,498,960,968
Fire and marine,	
Assets	501,441,667
Surety and casualty,	
Assets	192,172,715

The surety business is perhaps the youngest of all great lines of insurance. It comes in touch with every transaction in business, professional and political life. For this reason, it is the most interesting.

A successful surety man must, in truth, possess a wide knowledge, if he is not a master of all trades. Indirectly, if not directly, he builds great engines of war, both for land and sea; he constructs railroads and canals, dredges rivers and harbors, builds lighthouses, digs irrigating ditches, erects capitols for States and courthouses for counties; undertakes public works, watches with a fatherly care over the president and cashier of a bank; bonds the railroad and transportation officials; and last, but not least, guarantees the faithfulness of all persons accepting positions of a fiduciary nature.

Corporate surety, in its manifold relations to the public, is not properly understood. It is not actuated by motives of philanthropy; its functions were never supposed to cover financial obligations, except bank depository bonds, and those co-existent and co-extensive with the issuance of contract bonds. In fact, it was never intended that a surety company should assume a straight financial obligation. Even in the case of a fidelity bond, while it

is true the company takes a chance, yet the chance is taken because the person bonded knows that if he defaults he has committed an act which makes him criminally liable.

The surety business is for the convenience of the public. It is a conservative safeguard, and accomplishes much in mitigating dishonest tendencies and uplifting the human element in business transactions.

It must be at all times prepared to discharge promptly its obligations, and possess the courage to defend, if necessary, any illegal claim made against it.

An element of risk is necessarily involved in every bond or guarantee, and it is fallacious to suppose that the amount of the bond is the true and only measure of the risk assumed.

To presume that every bond of the same penalty carries with it the same risk is a mistake; also that the premium should be the same. "A bond is a bond" is the slogan of almost everyone, and it is essential to the safe and proper conduct of the business that we should utterly destroy this heresy.

Such false doctrine entirely ignores the environment of the risk, the moral hazard, the nature and duration of the bond, the checks thrown around the person bonded, together with many other features which naturally suggest themselves from the peculiar nature of the risk, and are the basis upon which the company must regulate its charge.

These vary with each case; much more so with each classification. Hence, it is in entire accord with business principles to rate the premium, not in proportion to the penalty of the bond, but to the estimate the company makes as to the risk involved in each class. In every case the penalty of a bond is, of course, considered; but it is only one of many constituent elements taken into consideration.

Well-managed companies—those which make an effort to eliminate hazardous risks from their books—must consider at the outset whether, in the light of experience, the premium charged for an individual risk is sufficient to cover the fixed ratio of commissions and expenses, and probable amount of loss. The loss may

not come on the individual risk under consideration, but it is bound to come; and to an extent that must be figured at a fixed ratio.

This Company is conducted under fifteen different departments; but, broadly speaking, the surety business may be divided into two classes:

First, fidelity bonds. Our protection in this class has been heretofore stated.

Second, bonds guaranteeing the specific performance of contracts, and the payment of bank deposits in case of the bank's failure. In this class the surety loans its credit. The safety of the Company, of course, lies in the solvency of the applicant. At the same time, we must realize that the applicant's solvency is affected by his experience, business judgment and capacity. If he lacks experience, or his business judgment or executive ability is deficient, his solvency is immediately affected, and it becomes only a question of time before the surety will be called upon to fulfill its obligation under the bond. In the same manner that a bank's solvency is measured by the solvency of the individuals and firms on whose paper it has loaned money, so a surety company's solvency is determined by the solvency of the firms, individuals and corporations whose contracts and obligations it guarantees.

Viewed in this manner, therefore, the surety business is not one of insurance alone, but one also of credit.

A question that comes home to both the agent and the company is the question of remittances. The insurance departments of all the States require that all premiums more than ninety days due shall be excluded from its assets. On the other hand, one-half of this excluded amount must be included in and charged up against the company's reserve liabilities.

Therefore, on all business where the premiums are over three months due, the company is really worse off than if it had never written them. It follows that the agent should at least do his part towards collecting and remitting overdue premiums, and thus

place it within the power of the Home Office to make the very best annual statement possible.

Surety premiums are due and should be paid on delivery of the bond; certainly, within ten days or two weeks thereafter; then, if it is necessary to return a portion of the premium, the company could make a short rate charge instead of having to mark off the entire premium.

When sending notices or bills to principals or their attorneys for premiums for second and subsequent years, it should be stated that "the renewal premiums due on said bond are in accordance with their written agreement, and will be due on ..... date."

It is well to remind administrators or guardians that the premium is not only a charge against the estate, but that the agreement is an individual one, and consequently the company has recourse against both the estate and the individual.

The importance of collecting second and subsequent years' premiums is of greater importance than those of the first year. It gives the agent commission on the renewal premiums, and it relieves the company from carrying the liability without finally receiving any compensation therefor.

It has long been recognized that when a premium is paid, the company obligates itself to set aside a sufficient sum to carry the risk over the period covered by the bond.

This is the underlying principle of reinsurance reserve. Theoretically speaking, the reserve is not a reinsurance reserve, but an unearned premium reserve, and is so called in the insurance departments and so considered by the laws of many States.

The unearned premium reserve has, therefore, come to be known as a reinsurance reserve. Some States cling to the old phraseology which provides that a company shall reserve an amount equal to the unearned portion of the premiums, while in other States a reserve is required equal to fifty per cent of the premiums on policies in force, running for a term of one year or less, and a pro rata reserve on all policies in force and issued for more than one year.

Therefore, if a company increases its business year by year, together with its term business, it would place a penalty on the company's surplus if, in any year, the expenses and losses exceed fifty per cent. Therefore, the surplus of the company would gradually be encroached upon, and if this condition became continuous, it would naturally wipe out every dollar of the company's surplus.

If then, from its premium receipts the company is not able to pay its total expenses and commission, together with the losses which are bound to increase as the business increases, and as the company gets older, the conclusion is apparent that either the premiums have not been adequate to maintain the reserve of the company, or the company has placed on its books risks of an extra-hazardous character.

Assuming that the company has been conservatively managed, and that its expenses are kept as low as is consistent with business progress and its future prosperity, its continued permanent existence depends upon two things:

First, the judgment exercised by the officers of the company in passing upon and in assuming risks offered;

Second, the company must maintain a rate on the business sufficient to carry it with profit.

The United States Fidelity & Guaranty Company should not be governed by what the American Surety Company, the Fidelity & Deposit, The Title Guarantee, the Metropolitan, the American Bonding, the Empire State or the Federal Union, does, or does not do, but it should conduct its business upon sensible, practical lines.

You, as insurance men, prefer to represent a company which is increasing rather than decreasing its surplus. Therefore, no extra-hazardous risks should be accepted, no risk written at abnormally low rates, and no liability assumed of such proportions as would seriously cripple the company in case it was called upon to pay the penal sum of the bond.

The enforcement of these principles may at times touch your pocketbooks, but you must realize that you, too, are building for the future as well as for the present.

The great competition in the surety business has brought about undesirable conditions. It therefore needs every saving salt that can be sprinkled over it or injected into it.

The struggle for the surety business between the companies is a little fiercer now than it has ever been. Some call it competition, but it cannot be so designated with accuracy. A contemporary says: "Competition implies vigor, health, sanity; but the cutting of rates, the giving away of goods for less than cost, is simply disease, fever, mania.

"Competition is a meaty word, well-born and well-bred. It means doing one's best. The other is a bastard pretender to the legitimate place of competition."

"One wears, wins and survives; the other is the essence of death. Real competition means putting together the best material, the best brains and the best work, to originate, to create combinations; in a word, to produce the best goods. Whether the goods be locomotives or insurance policies, the proposition is equally true."

Success in any occupation means not only hard work, but one must become a master in his profession. Talent, ability and integrity of character count for little if one is unwilling to work and apply one's self.

The successful agent is the one who has the energy to solicit the business, the persistence to pursue the quest, and the resourcefulness to meet and vanquish a competitor in a fair encounter, together with perseverance, patience, courage, tact and intelligence; in short, all the qualifications which are crystallized into the one word—*hustler*. He must, however, hew close to the line and never claim for his company or the thing he has to sell that virtue which it does not possess.

We claim that The United States Fidelity & Guaranty Company is a recognized educator in the surety world. It has graduated from its ranks the president of the Metropolitan, the president of the Empire, the general manager of the Title Guarantee, the superintendent of agents and the superintendent of the burglary department of the National.

In the early days our Company decided to depart from the old beaten paths, and to adopt new methods and cultivate new fields. With this end in view, it organized several new departments, one of which is the Guaranteed Attorneys' Department, which involved the publication of a Quarterly, containing the names of twelve thousand attorneys, each of whom is guaranteed by the Company. With each attorney listed in the Quarterly, we have a contract which requires him to furnish to our mercantile subscribers, upon application, an up-to-date report of the standing of any business man. This department is operated distinctly and separately from the surety department. A small army is engaged in placing this publication with the leading mercantile and manufacturing concerns of the United States, the subscribers to which amount to over six thousand. Still another corps is engaged in educating subscribers up to a practical use of the system.

Under this arrangement, we have attracted to the service of the Company two powerful feeders. First, the leading merchants and manufacturers of the country; second, the attorneys; all of whom are working together and producing results beneficial to themselves and to the Company.

When first introduced, these ideas were ridiculed. Now all the surety companies are attempting to imitate them. But imitation does not always create the real thing.

We have over thirty-four hundred agents in the field representing the Company, and our system is so perfect we can file a bond in any far or remote corner of the United States as quick as the telegraph can carry it there. In 1897, our capital was $250,000, and we had no surplus. We have grown steadily until our assets last year amounted to over $3.500.000. In 1905, we wrote $2,286,428.74 in premiums—more by six hundred thousand than any other surety company in the country—and collected in cash $2,230,881.15.

The figures just shown are all the more remarkable because the results were not due to cutting rates. The "Standard" of Boston published a statement under date of December 31, 1905, giving the amount of liability in force by the various companies,

and the amount of premium received thereon. The five larger companies stand as follows:

	Liability.	Premium.	Rate.
1. U. S. Fidelity & Guaranty Co.	$507,941,742	$2,307,340	45¢
2. Fidelity & Deposit Co.	304,897,930	1,436,184	42.0
3. American Bonding Company.	174,630,453	724,540	41.5
4. American Surety Company	503,590,152	1,712,378	34.0
5. National Surety Co.	379,369,586	1,282,076	33.8

Last year we paid out in losses $983,427.81, and for the ten years which we have been in business we have paid out to protect our clients $3,292,061.15.

This splendid record is unsurpassed by any other surety company in the business, and to our minds demonstrates conclusively that we enjoy, to a marked degree, the confidence and respect of the business world.

Executives do not always realize that their first responsibility is to their stockholders, and forgetfulness of this responsibility creates evils which act as a blight upon the surety business. The line of safety is the line marked by the laws of common sense, the lines of prudence in making rates and adopting methods for conducting the business. If surety companies cannot agree upon rates among themselves, each executive for his company should, after mature deliberation, fix a minimum rate on all lines of business, from which position nothing should induce him to recede.

The plodder, in contra-distinction to the plunger, is the man who values certainty, above all things else, as the test of his achievements. The plunger takes great risks with the idea that unless you risk much you cannot gain much; but the fallacy in the latter's reasoning is his failure to see that the possession of wealth and the control of material resources bring with them a responsibility to the investing public which places strict limitations upon running hazardous risks, and demonstrates the necessity for pursuing a policy of getting *certain* returns, even though they be moderate.

Any man who is entrusted with other people's money does the financial world an injustice when he unnecessarily jeopardizes its

resources. A man cannot safely be a plunger and a trustee of other people's money at the same time. It is all right for a man to plunge with his own money, but he has no right to do so with the money of others without their express consent.

There are certain positions in the financial world in which the plunger policy should be entirely eliminated. One of these is banking, another is insurance. It is little short of a crime for a man who is responsible for the safe conduct of an insurance company to jeopardize it by speculative ventures. Assuming risks too large for his company to carry, cutting rates below the point of profit, blind, reckless and free underwriting, risks that are not safeguarded by limitations, bonding fiduciaries for large amounts without joint control and the assumption of financial guarantees may be included in these speculative ventures.

So, it is with a full appreciation of the character of its business that The United States Fidelity & Guaranty Company seeks to come among your clients and asks them, through you, for their confidence and patronage. This is no small favor, because rightly understood, it means the assumption of great responsibilities on your and their part, as well as on the part of the surety company.

This Company realizes that when it writes bonds covering fiduciaries, it guarantees the faithful management of a trust for periods of many years, and it is therefore of the utmost importance to your clients and their families, to see that such bonds are written by a well-managed and financially sound company.

In a word, there always exists a living responsibility to which the company must measure up if it can hope to enjoy a continuance of the public's confidence; for, in case of default, the company *must come forward* and protect the assured *by payment in full* of the amount of its liability.

In short, such an institution as ours becomes interwoven with all your business affairs, your body politic and your family. Therefore, as a condition precedent to giving business to any surety company, it is the duty of your citizens to look into the character of its management, its general policy and its financial condition.

We recognize that we have a great problem before us. We must successfully analyze the conditions which surround the business. We must possess enlightened sagacity in the development of liabilities in order to meet any test of endurance that is imposed upon us. We must make such disposition of our guarantee as will enable us to meet all demands upon us, and at the same time maintain unimpaired a strong financial condition.

In the surety business, as in a watch, each wheel is dependent upon the other. Each little wheel must perform its functions with the big wheel, or the machinery will not run.

The men who have succeeded best in life are those who have had the foresight to look ahead and build for the future.

The agent must not lose sight of the fact that, while he is living a strenuous life, is in fierce competition with others, is grappling with an opponent, there is an organization at the Home Office working equally hard in formulating sound advanced business methods, the ultimate purpose of which is to secure such revenue as will insure the best service and meet the needs of customers.

The agent who has confidence in the Home Office, who respects the principles adopted by the Company, who carries out its instructions, is, in the end, most successful. But the agent who closes his ears to precepts, to rules and instructions, to precedents and to the Company's teachings, and seeks by argument and inducement to break down, to combat and to turn the Company from certain fixed rules, or to tempt it to depart from a well-defined policy, ends generally in bringing upon himself no end of worry, and upon the Company loss.

Substantial and lasting results rest on mutual confidence. The agent must co-operate with the Company by following out its rules and instructions, and assist in creating the most perfect methods possible.

The Company's rules come from a close study of legal decisions and the practical daily lessons learned from actually handling a rapidly-developing business.

We do not wish to be misunderstood on this point. We invite an interchange of opinion and a frank discussion of any question

or risk that may be submitted. The discussion of questions, methods and risks is educational on both sides, but after all is said and written, we do not want the agent to feel aggrieved should the final decision be adverse to him.

We should not blame our business for that for which we are personally responsible, or that for which a remedy may be effected by method. Unless you have method you give an inferior competitor, or one inferior intellectually, but who applies method to his business, a great advantage over you. Method protects your business and increases the value of your working forces. Any business depends upon how effectively it is conducted, upon the economies practiced, and the exclusive methods adopted.

The man whose time is worth most can only make time by method, and a business is never better or more profitable than its methods permit.

When one has reached that stage in his business when he no longer has a desire to improve his methods, or increase his business, it would be well for him to retire.

We have long since realized that only method and discipline could produce stable and satisfactory results. Therefore, our policy and our hope has been, as it will continue to be, in the organization, discipline and perfection of our system. In endeavoring to create a perfect machine, we have realized that business is too big and interests too varied for one man to contain the whole business within himself. The corporation signifies the resources, the brain and the work of many men merged, for one purpose, into a business unit.

Therefore, the business man of to-day must give personality to a great impersonal corporation of which he is the chief. Personality implies something human. The only source, then, from which a business can draw a personality is the human element in it—the men who are carrying on its activities. Man must make the business part of himself, and himself an organic part of the business.

The object of the corporation chief is to make men feel that they are integral parts of a great machine. While it is true their

acts are swallowed up in the ponderous activities of the whole, they should be made to realize that they have responsibilities, not only as business-getters and money-makers, but also towards the public and towards their business associates. Judgment, originality and integrity must be applied alike by executive officers, heads of departments, field men, agents and attorneys to make men respect their profession, not alone as a means of acquiring wealth, but because good work brings its own reward.

The agent of a surety company is the man who is always on the firing line. He must keep the Home Office posted regarding the movements of his competitors; in its true sense, he is the scout.

He has behind him the company and all its financial resources, and draws inspiration from the management; on the other hand, the producing power is centered in the agent, as all of its business comes through him.

This company, therefore, recognizes the service rendered by its agents, solicitors and attorneys, and tries to give them encouragement and support. It never "turns down" a piece of business without reluctance, and when it does, always aims to convey its objection in as agreeable a manner as time and space will permit. The broader outlook and wider experience which we gain by coming in contact with the business which the agents forward from day to day, necessarily makes our knowledge and judgment, as a rule, better than theirs, and as the final responsibility for the acceptance of a risk rests upon us we claim the privilege of the last word.

Therefore, the Company's continued success depends upon the degree of effort, of judgment, of energy, of intelligence and of loyalty which you display in the Company's interests; and upon the wisdom of its policy, the perfection of its organization and the discipline which it is able to maintain among those in its service. Cultivate this spirit, for it will give us greater strength and greater courage. With such a spirit prevailing among its agents and field-workers, the Company is bound to move forward, growing irresistibly greater every year.

THE FORMATION OF LOCAL AGENTS' ASSOCIATIONS.

There is no department of insurance in which there has been such unwise and destructive competition as in the surety business. The reasons for this need not be elaborated, at this time, as we are dealing with conditions and not theories, and this is intended to be a practical paper. Theories are useful, but facts are God's arguments, and unreasoning competition has so demoralized rates as to threaten to eliminate all profit and menace the very existence of some surety companies.

The problem of how to provide sufficient funds, to defray expenses, pay losses, as well as to gradually accumulate a surplus, resolves itself into a question of obtaining adequate rates. The question of what constitutes adequate rates is still an open one. Life insurance companies have their actuarial tables, which are almost scientifically correct, and upon which it has been possible to formulate rates, which have enabled them to accumulate vast sums of money, so enormous as to have become the most stupendous element of modern finance. Fire insurance companies have had long experience, and, through the aid of their local boards of fire underwriters, are making strides towards the establishment of satisfactory rates.

Surety companies possess no tables which are sufficiently accurate to be relied upon, as their experience has been so short as to preclude any really scientific underwriting. They are, however, steadily accumulating information and statistics, which will enable them to figure in the future more accurately upon the expectancy of default in fidelity or loss in surety bonding.

One of the principal reasons why greater progress has not been made is because the companies and their agents have been absorbed in a wild scramble for business, and the question of

rates has seemed to have been entirely lost sight of, bonds actually having been written for no premium, to prevent a competing company from securing the application. This is competition run wild, and it has so debauched the business as to minimize all sober judgment and conservative underwriting.

There have been several attempts made by the Home Offices of the companies to get together, and formulate plans for the correction of abuses and the elimination of unbusiness-like methods, as well as for the establishment of stable and remunerative rates. Our Company has always promptly responded when invited to attend any meeting for the purpose of reform, and has encouraged every movement to better conditions. These movements, however, have resulted in failure, and the companies now turn to their agents and request their intelligent co-operation in endeavoring to reach the goal of success in another way. There are many reasons which could be named why this is the natural and logical method to introduce reform and correct abuses in surety bonding.

In the present inflamed condition of the public mind, upon the subject of the enforcement of the anti-trust laws, any attempt of the executives of the companies to get together upon the subject of rates, would result disastrously, and either lead to civil or criminal prosecution or universal unpopularity. Furthermore, local conditions must be studied in order that proper rates may be formulated upon the different classes of risks. The experience of men in the field must be consulted, as well as that of the officials who pass upon the risk.

It has proved to be a comparatively safe proposition to write liquor license bonds in Massachusetts and Rhode Island, while, on the other hand, the writing of this class of bonds in New York, has been very unprofitable to all companies, and so, in the same way, in any numbers of kinds of business local conditions and local laws very materially affect the question as to whether any class of bonds is profitable for a company. Therefore, the making of rates and the enforcement of them as applied to the different classes of business appears to be one which should have the

consideration of men familiar with the local conditions. But no scale of rates should be agreed upon in any locality until they have been submitted to the Home Office and received its approval.

Apart from the question of securing uniform rates, our Company has encouraged the formation of local agency associations because of other advantages which have resulted from such movements. A very prominent one is the matter of legislation. Agents of the companies in several cities have united to secure just laws in various States which are needed to guard the companies from unjust taxation, local discrimination, and oppression in various ways. By united action, they have secured legislation providing for corporate as against personal surety of officials and for security of public funds deposited in banks.

Indirect results have also been secured by the removal of prejudice and the ill-feeling formerly existing between rival agents. Personal contact has enabled keen competitors to discover that they are all human, equally eager for business and alert to use all legitimate means to secure applications. It has been found that by making a start in good faith, giving every man credit for being honest and sincere, until he has proven otherwise in actual case, excellent results and good feeling have been secured which has fully repaid the effort.

At Washington, D. C., the movement for a local association resulted so successfully as to cause it to be used as a model for such associations everywhere. After some preliminary missionary work, by a few whole-souled agents, a meeting was called and an agreement entered into for one class of business, viz., judicial or court bonds, and then an association was formed, articles of agreement drawn, providing for a permanent organization with a governing committee. After judicial bonds, contract bonds were taken up, next fidelity bonds were added to the schedule, and so on until all classes were covered.

This association regulated the question of brokerage, which is a very important one, as the surety business has suffered very seriously from the acts of brokers in their endeavors to obtain applications as they have played one company against another,

trying to obtain a rate which would please their customer whether it was a fair one or not. The question of commissions to be paid agents was covered also, as well as how many agents each company should have in cities and towns.

Each member of the association paid an admission fee, which was considered a guarantee of his good faith. This money was deposited at interest, the earnings to be used together with such fines as might be levied by the association on account of breaches of its rules for such purposes as might be designated, such as printing or other expenses, and perhaps an annual dinner. It was also provided that monthly meetings should be held, at which questions of interest could be discussed. The best criterion of the work of the Washington Association is its successful existence for over four years. The agents have been able to maintain rates, they have conducted their affairs with more peace of mind, and feel that they have been treating their customers with fairness. They have learned to avoid the mistakes of the past, and one of the results of closer association has been to warn each other of bad cases, and to protect each other when protection was needed.

At the time of the formation of this association it was found impossible to get the local representatives of one of the largest companies to enter into the agreement, and the question was then raised as to whether it was worth while to go into it without them but it was finally decided to do so. That company has since joined the compact and all the surety companies represented in the capital of the nation are now numbered among its members.

We have dwelt upon the history of this movement as we consider it a basis for organization in other cities. Since its inception, associations have been formed in Chicago, St. Louis, Cleveland, San Francisco, Detroit, and other cities with more or less success. Many of our agents have written, inquiring for particulars of the Washington organization, and our office there, has, at our request, very courteously and kindly forwarded copies of their rules to any desiring them.

One of the chief objections that is met, in trying to get surety men together, is that some particular individual will not keep the agreement. The best answer to this is that every law upon statute books of any State is probably broken more or less, but that is no reason why we should do away with all law, the object of which is to obtain, not a perfect condition of social life, but a better condition than that which has existed before these laws were enacted.

We beg to offer the following suggestions, which may be helpful in attempts to organize local associations:

First. Study the proposition until you become convinced that the best way to protect and better your business is to form such an association. Get enthused with the idea, live with it, sleep with it, think of it, and talk about it with the representatives of other companies. Obtain a copy of the rules of some local association and study them so as to familiarize yourself with the subject, in order that you can better discuss it and overcome objections which may be urged against the formation of such an association.

Second. Be ready not only to make concessions but be fair-minded and liberal in your judgment of competitors. You cannot expect to agree on everything, although you do make concessions. It cannot do any harm to form such an association and give it a trial; there is nothing to be lost and everything to be gained. Enter into it in a spirit of fair play, intending to give and take, and you may be happily mistaken in the way in which your competitors will meet you.

Third. Do not try to accomplish too much at the start. Get your competitors to agree on rates on one class of business, at a time, if necessary, and see how that works, and when your association gets stronger and you gain experience, you will be able to add other classes to your schedule.

Fourth. Keep everlastingly at it, and having become convinced that the time has arrived when these associations should

be formed for the improvement of surety bonding, prepare yourself so that you will be able to discuss it intelligently with your local competitors, and make every possible effort to bring about the formation of such an association in your locality.

JUDICIAL BONDS.

It is claimed that the surety business was first instituted by the Chinese and has always been a hazardous business. In affixing a signature to a friend's bond many men have unconsciously swept away a comfortable home which they never dreamed they were imperilling. While the theory of the surety business is that the company does not intentionally assume a risk, but merely loans its credit for a consideration, we know only too well, by our experience, that every bond written must be regarded as a risk.

For convenience sake and also because there exists a logical distinction, judicial bonds are divided into two classes, financial guarantees and fiduciary bonds. The former comprises all bonds given in actions at law, the latter all given in probate matters and in proceedings involving a trust, such as a receivership.

The bonds in the *financial guarantee* class are, as their name indicates, a direct guarantee for the payment of money either in the form of a judgment or in the assessment of damages.

Honesty and the faithful performance of the trust which comprise the main elements in the risk on a guardian's or trustee's bond do not enter into these bonds at all. The risk is simply this,—can the applicant pay a certain sum of money on the happening of a certain event. That is the important thing to keep in mind.

The risk is to be regarded just as if we were endorsing a man's note. For that reason a financial guarantee should only be executed when the applicant is of unquestioned financial responsibility proportionate to the liability involved, or when collateral,

in the shape of a first mortgage on real estate, cash or marketable securities of known value, is given.

In the case of one of these bonds, the recognizance or bail bond, one has to go further and receive cash or its equivalent in marketable securities in the full penalty of the bond before it can be safely written.

The list of these bonds is a long one, appeal, supersedeas, attachment, replevin and costs being the most familiar. Without collateral security they are all dangerous, but some much more so than others.

Certain States have open bonds. For instance, an attachment is laid, and the bond given is in no stipulated penalty. The result is, no one can really estimate what the damages may be. The same with an open appeal bond. The cost and interest, always at the full legal rate, make the penalty very difficult to determine.

When it comes to the applicant of unquestioned financial ability we are again on debatable ground. Of course, there would be no hesitation in executing a financial guarantee for a well-known railway corporation, or a large express company, a bank of good standing or any similar institution. But men's judgments differ as to the responsibility of business houses and commercial corporations. Dun and Bradstreet are often far apart. The only safe way is to look at it from the point of view of the credit man.

Carefully scrutinize the financial standing of the applicant and find out how the litigation arose in which the bond is to be given. Frequently, the mere necessity of the bond indicates that a house or corporation of good standing is beginning to totter.

If there is the least doubt in one's mind, collateral should be required. The largest corporations often give it without a question and the requirement is no hardship.

As a bank would not discount a man's note without being secured, so a surety company should not enter into practically the same obligation without being as well protected.

The risks on a *fiduciary bond* are first the moral one, as in a fidelity bond, and, secondly, what may be called the business risk, *i. e.*, whether the applicant is possessed of sufficient business ability

to manage the trust estate with the same care that a prudent man of business would exercise in the management of his own affairs.

Starting with these fundamental principles, one might inquire whether it is a sound business proposition for any company to place any one man in a position in which failure or defalcation could wipe out a quarter, or a half, of all of the assets of the company. There can be but one answer to this question. Again, if it is a bad business policy to place one man in such a position, what right have we to give one thousand men such power, when the failure of three or four principals in a single year could force a company into liquidation.

Let us go one step further into this question. A glance over the annual statements of the leading surety companies indicates that the profits have been steadily decreasing until they have reached a low point, while the losses have been increasing at an alarming rate in proportion to premiums written.

In a word, the conservative surety company, the company that is most likely to survive, must become more strict rather than more liberal in the matter of joint control. There are more fiduciary bonds written than there are fidelity and contract bonds together. The risks on fiduciary bonds are, as a rule, larger, and on every bond there is a chance of a total loss unless there is joint control. Some bond companies are permitting their agents to preach that joint control is a thing of the past. On the contrary, it must be the first principle of the fiduciary bond business of the future.

It is a deplorable fact that our judges, who should be the very first to encourage and assist surety companies to protect the estates of deceased persons, are often our worst enemies both on the subject of joint control and of adequate premium rates. It must be pointed out that joint control of large estates means protection to widows and orphans, and adequate rates mean ability of the surety companies to pay losses.

But how are we to obtain joint control and still get the business. We believe this is feasible, and in fact we have found it easier each year of our experience in the business. In the first place,

the principal should be made to understand that joint control is necessary. The insurance reserve requirement and the cost of reinsurance are good and sufficient reasons. Lead up to the subject of a joint deposit box, explaining that it is a protection for him just as it is for the company; that the securities of the estate do not belong either to him or to us; that they do belong to the heirs or creditors; that we simply want these securities put in a separate and safe place, where, in the event of his death, those interested will know that they are safe, and so we will not have to embarrass his family by looking them up before his corpse is cold. If we have joint control, we become responsible for the production of the assets of the estate.

Such an arrangement is a business proposition for any man who desires to handle an estate in a business-like manner. If the assets of an estate are in a safe deposit vault under joint control, the bond company can easily deliver them upon the death of the executor, or administrator or trustee, upon the order of a proper court. If they are mixed up with the property of the deceased administrator, executor or trustee, it is often impossible to separate them from his estate. In such cases complications often arise which reflect upon the most careful men. It is often necessary to put in a claim, and sometimes to institute a suit against the estate of an administrator, executor, or receiver, who, simply through lack of method, has mixed up his own property with trust funds. Such a suit is embarrassing, and reflects discredit upon a man who may have been thoroughly honest.

Joint control, which to many men on first thought seems a reflection upon their integrity, is, as a matter of fact, the greatest protection to the fiduciary that has been devised by modern business methods. It is as great a protection to him as it is to the surety. Under joint control he obtains, without paying for it, the legal advice of a bonding company trained in handling estates. It becomes the attorney, and prevents the fiduciary from making a fatal mistake resulting in loss to him if he has property. Joint control saves legal expenses, removes temptation from a weak man and gives to him also an indemnity against loss.

These are logical and proper arguments which an agent may use to obtain joint control.

It is needless to say to those who are familiar with fiduciary business that, while it is the most hazardous, it is also the most lucrative field of all the surety business.

While the business may be divided up among many companies, it is always a field in which new business is daily coming up from persons who do not realize the responsibilities assumed by the surety company.

After the securities are once placed in a safe deposit box, see that they are kept there. Do not qualify your control. The safe deposit company should be made to understand that it is responsible for the delivery to the wrong person of securities under joint control, and the conditions of the joint control should be distinctly set forth in a letter to the safe deposit company. Finally, place the name of your company on the safe deposit box with that of the principal, and, if you can, attach thereto the words, " Under joint control."

Having once obtained joint control, the question arises as to what is necessary for a bonding company to do in order to safeguard its risks.

Having obtained joint control of the corpus of the estate, the income must be properly handled. Countersignature of checks is by no means an entire safeguard. Income is a difficult thing to keep track of. In the natural course of business it is often received by the fiduciary before knowledge of it reaches the surety. Therefore, the annual account must be looked after. See that it is filed in proper form and notice given to all persons who have any interest in the estate. If necessary a hearing may be had before the judge, so that the account may be confirmed and duly filed. In this way only can risk of loss be reduced to a minimum. However, notwithstanding all these precautions, if fraud is discovered in the final account the case can be reopened and questions raised as to the liability of the surety.

Executors and administrators should not conduct a business, sell property, pay or compromise claims without the authority of

the court. If the decedent left a going business and it is kept going it becomes a dangerous proposition.

All property contained in the inventory should be accounted for and distributed according to the will, the statute or order of court. The hearing on the final account should always be by due notice to all concerned, and proper entry thereof should be made of this on the court records.

Clerks of courts will often sign a certificate for a bonding company that means nothing, in order to get rid of the agent. It requires little time to examine the records yourself. Judges frequently accept accounts without looking at them. Only a short time since a judge signed a certificate discharging an administrator, who had stolen $10,000 and endeavored to hide it by charging it up in the account as his fee for services.

An account may be offered as a final account showing a balance on hand for distribution. Such a record is incomplete. In these cases the receipts of the beneficiaries should be put on record or a supplemental account filed, showing that all legacies have been paid and all other monies legally distributed. The receipts are always best evidence. Some courts require them to be filed, many do not, but all courts should require them to be made part of the record.

We are sometimes called upon to write a bond for an administrator *de bonis non,* an administrator who succeeds an administrator, or, when there is a will, an administrator, *d. b. n. c. t. a.* Such a bond should never be written without inspecting the court records to ascertain whether the original representative of the deceased has complied with the order of the court and made the necessary return to the court for his acts. If the orders of the court have not been complied with, and if proper returns have not been made, the new administrator will be powerless to close up the estate so that the bonding company can obtain a satisfactory discharge.

Such a state of affairs can only be properly remedied by having the new administrator apply to the court for such special orders

as the statutes or practice allows in order that he may not be held responsible for the laches of his predecessor.

The bonds of trustees and life tenants are much alike in their requirements so far as the surety is concerned. In these bonds the inventory is also necessary, although some courts hold that where there is on file a record of distribution prior to the appointment of the trustee or the qualification of the life tenant that another record of the assets of the estate is not necessary. The most important thing to look out for in such bonds is the annual, or intermediate account. An annual account is not necessary in the case of a life tenant, unless the investments are changed, in which case it is absolutely necessary. In all cases of trustees and life tenants you should see, first, that the form of the account is correct, and, secondly, that the legal notice of the filing of the account and the hearing on the same is given to all those interested in the estate and, most of all, to the remainder-men; thirdly, that there is a hearing and that the account is judicially settled and recorded.

After filing of the reports in case you do not have joint control, get inspection, if you can, of the corpus of the estate. Find out where the personal property is, how the cash is kept and handled; if there is real estate look out for the rents, repairs, and insurance. The handling of real estate by a trustee opens a chance for a dishonest man. No one knows how much he collects from rents; how much he spends for repairs.

A conservative surety company has just paid a loss of $35,000 on a trustee's bond where the trustee permitted the husband of one of the *cestui que trust* to collect rents and manage real estate. The husband, according to the finding of the court, failed to account in a period of twenty-two years for about $28,000, on which sum there was interest added. Of course the trustee was liable, and, as he could not pay, the surety company had to pay.

Finally, what should trustees do in handling estates. Broadly, what a prudent man would do. But do not take any chances on any man's prudence, let the courts do that; then the surety will not be liable. Remember, that a trustee is personally responsible

for the illegal investments he makes. The investment of trust funds is regulated by statute, and you should know the statutes of your State relating thereto. The strictness with which the courts construe the law is exemplified by the following quotation from a leading case:

"A guardian's authority to loan and invest his ward's funds is purely statutory, and investments made, not authorized by the statute, are voidable at the election of the ward, and he may recover back his funds invested therein from both his guardian and the other party thereto, having knowledge of the legal use of the trust fund.

Woodward *vs.* Bird, 21 Pickle, 671."

Beware of the trustee who, through an honest desire to get increased income for the estate, goes outside of the legal investments and speculates for this purpose. Remember, that a trustee who pays a premium for an investment bond must set aside from year to year out of the interest a proportionate amount to pay the premium, so that when the $1000 bond which costs $1,110 falls due, there will be on hand $110 in addition to the face value of the bond.

If the trustee invests in mortgages, you must insist that he hold the insurance policies, properly endorsed, and you should inquire of him whether he is keeping track of the payment of the taxes on the mortgaged property.

The chief avoidable losses come from, first, the acts of trustees who exceed their powers and make themselves and their sureties liable; and, secondly, the acts of those who become liable through negligence. Remember, that as a general proposition the only safe trustee is he who goes to the court for directions, advice and orders regarding his acts.

Guardian bonds if not carefully followed up are dangerous, and within the next fifteen years surety companies may be called upon to pay large losses. Fiduciary bonds have not been written for more than twenty years and therefore liabilities are just ripening on the first guardian bonds that were written by surety companies.

Parents are careless and sometimes extravagant. They usually consider that their children's money belongs to them, and they cannot be made to believe otherwise. They are averse to filing reports, and most of them never do. They rarely keep any record of disbursements, consequently cannot render a satisfactory account.

A guardian's bond should almost never be written without joint control. No one can bind a minor nor sacrifice his interests with impunity. The most that the probate courts can do is to say what expenses are necessary for the care and education of a minor. If you leave these questions undecided for twenty-one years, the point of view of the most liberal court contracts on the question of expenses, the details of which the guardian himself has forgotten. Here, again, look out for the filing of the inventory and the annual account. If the estate is being rapidly used up, or if the income is large and is all being spent, it is always best to ask the court if it has considered these items and is satisfied that they are necessary and prudent. Finally, when the ward reaches his majority, get a full release from him while he wants his money and before he begins to devise plans to sue his guardian.

The bonds of conservators or committees of lunatics demand inventories and generally annual accounts, and, especially, notice of the filing of these accounts to the heirs, who are always looking for the whole estate, and, in lieu thereof, a fight. Here you usually have a peculiar situation. A person who has become insane is usually regarded by the relatives as dead to the world, and they begin to look upon his property as their own. They follow every item of expense and every act of the conservator, and if the account of the conservator is not filed whenever legally required they object to everything when it is filed.

In all these long-running trusts, the salvation of the surety from heavy loss is the periodical legal accounting properly drawn, filed and accepted by the proper court. There is no excuse for not filing such accounts, and no excuse should ever be accepted

by the surety, unless the estate is lying dormant and the surety has joint control and knows where the assets are.

There must be exceptions to all rules, however. Cases arise where it is a matter of policy to waive joint control, and where competition sometimes makes it necessary to waive joint control on small bonds. But no premium is big enough in this business to cause a careful agent to advise his company to waive joint control on large probate bonds unless they are short-term bonds, and the principal has sufficient financial strength and standing in his community to make it safe to place him for a period of a year in a position where his defalcation may cripple the surety company. Just as a matter of policy, the writing of such bonds is as dangerous for the agent as it is for the surety company, for the reputation and success of the agent is inseparably linked with the strength and standing of his company. In the scramble for premiums, sometimes this fact is forgotten.

It is a dangerous fallacy for the agent to assume that he has earned his commission when the bond is written. An agent's commission is never earned until the risk has been terminated and the Home Office supplied with sufficient and proper evidence to close the bonds on its books.

Those of you who are not lawyers will say this is all quite true, but how can we apply such rules to the surety business. The answer is not difficult. The statutes of your State applying to the estates of deceased persons are in the main plain. If there is anything in these statutes you cannot understand go to our attorney and he will explain them.

For the further information in regard to Judicial Bonds, see Guide for Agents, page 70.

CONTRACT BONDS.

Bonds guaranteeing the fulfillment of contracts are regarded by surety companies as much more hazardous than bonds that simply guarantee the honesty and fidelity of an individual.

A contract bond not only guarantees the honesty of the contractor, but also his business success. It guarantees his expert knowledge, and also that he has made no mistake in his estimate of the amount and cost of each of the elements that enter into the contract, including labor and materials.

It guarantees that his calculations are not at fault with reference to the final date of completion, and also that he will retain his health and energy so as to give to the undertaking his personal supervision, upon which success so often depends. Therefore, in contract bonds there are many risks to be taken into consideration in addition to the moral hazard.

Copy of Contract Essential.

In the "Guide to Agents" the following instruction is given: "No agent should forward an application to the Home Office until he has been furnished *with a copy of the contract upon which the bond is to be based.*" Judging from the numerous instances in which the agents have failed to comply with the very definite instruction thus given, we must assume that it has escaped their attention, or that they fail to appreciate its great importance.

It requires but a moment's consideration to realize the fact that without full knowledge of the terms and conditions under which the contractor is bound it would be extremely unwise for the Company to become his surety. The bond required is based upon and therefore made a part of the contract. Frequent annoying delays occur because of the absence of the contract when applications are sent to the Home Office.

Agents are advised that the Home Office no longer desires

them to send the plans and specifications when application is made for a contract bond. What *we do desire* is that a copy of the *contract* to be covered by the bond shall always accompany the application; this copy to remain in the Home Office files in the event of our issuing the bond. Agents will greatly facilitate the prompt issuance of contract bonds if they will bear this in mind.

Detailed Financial Statement.

When taking applications for contract bonds agents should be very particular to see that the statement of assets and liabilities, called for in the application blank forms, is made out in a manner to show clearly the precise financial condition of the applicant.

For example, if the applicant owns several pieces of real estate, one or more pieces of which may be encumbered by mortgage and one or more pieces be entirely free and clear, it is misleading to simply set down the aggregate value of all the real estate in one item and the aggregate amount of the mortgages in another item on the opposite side of the account.

If set down in that way it appears as though all the real estate was encumbered, and it is, therefore, lightly considered as an available asset; whereas, if each piece of real estate, with its value, was set down separately, and the encumbrance on each piece shown separately, then the unencumbered real estate would stand forth in the statement as a distinct credit item and be given proper consideration by the Home Office when examining the application.

The item of "Accounts Receivable" should be carefully looked after and applicants should not be permitted to include in that item anything except amounts actually due them for work actually completed, and for which they hold estimates approved by the architect, engineer, or other superintendent who is authorized to approve and sign such estimates. It frequently happens that applicants include as "Accounts Receivable" the amount that is to be paid them if and when the contract is completed. In other words, "they count their chickens before they are hatched,"

and agents should question applicants upon the subject when the applications are being made up.

When an applicant includes stocks and bonds in his statement of assets and liabilities, a note should accompany the application showing just what these securities are. The name of the corporation and the number of shares or the number of bonds held and the par value and market value.

A point of great importance is to have the application show what contract work the applicant has on hand. Each contract should be set down separately and the nature of the work clearly indicated, as well as the amount involved in the contract, the percentage of the work that has been completed, and the date upon which the contract is to be finished and turned over to the owner. This information is of as much importance to the Home Office as an accurate statement of the assets and liabilities of the applicant.

In all cases where the application is for a bond covering a contract for public work the names of the bidders and the amount of their respective bids should be shown. This information should also be shown, if possible, when the application is for a bond covering a contract for private work.

Indemnity.

Some of our agents seem unable to comprehend our reasons for requiring personal or other indemnity before executing some contract bonds, and not infrequently manifest an entirely erroneous conception of our position in the matter. In fact, only recently, an agent, in asking our reasons for requiring personal indemnity, declared that it would be more reasonable to pay the indemnitors the specified premium on the bond, as they assume the actual liability, and not the Company.

The invariable rule of the Company in considering applications for contract bonds is that the applicant must possess financial responsibility in proportion to the obligations already assumed or to be assumed by him. By financial responsibility is

meant the possession of *available* assets to be used in any emergency arising under the prosecution of the work. Equities in real estate are not considered available assets for obvious reasons. Financial responsibility is always the primary consideration, while unquestioned moral standing is a secondary factor but of great importance.

It occurs sometimes, however, that an applicant for a contract bond is possessed of only moderate means, but has an excellent credit with dealers in material, who, because of their personal knowledge of him, are willing to furnish such material as he may require under any contract he has secured; especially, when they know that, in addition, they have the protection afforded by a surety company's bond.

In such cases and when the conditions appear to us to be favorable we will consent to execute the required bond, provided we have the personal indemnity of two or more responsible parties under which they agree to protect us in the event of default on the part of the contractor in whose behalf they have signed the bond of indemnity. The risk to us, however, in such a case is only minimized, as in the event of default but two courses are open to us: first, to pay the penalty of the bond, and, second, to enter upon and complete the contract. Once the work is undertaken by us we have no alternative but to complete it, regardless of the cost, and, having ascertained our total loss, endeavor to have the indemnitors repay such loss up to the amount of the obligation they assumed.

Rarely does an indemnitor *expect* to sustain loss through the endorsement of a friend, and if such loss does occur, it is generally necessary to enter suit to compel payment, thus involving delay, annoyance, and expense. To accept personal indemnity, regardless of the financial responsibility of the applicant, is simply to invite litigation. Such indemnity merely adds to our rating of the applicant and makes possible our favorable consideration of the proffered business.

There is another factor which must be considered. The acceptance of personal surety under any contract is very largely a

thing of the past because individuals may, in case of trouble, easily dispose of their holdings, and thus escape, while an organized surety company must accept and discharge its established responsibility. For this reason States, municipalities, and corporations, now, as a rule, refuse to consider personal bonds, and make it a condition of the contract that a satisfactory surety company's bond shall be furnished. The premium charged by a surety company for its service is merely for its bond-giving capacity, and is fixed upon an agreed rate. No surety company accepts an unqualified risk, no matter what premium is offered.

By way of illustration we cite the case of a merchant who would seek to have a note for $5000 discounted at a bank where his deposits never aggregated that sum. The bank cashier would naturally tell him that while he would like to accommodate him, his deposits at the bank would not justify it, unless, of course, he would have the note endorsed by one or two responsible parties, or else deposit collateral to cover the amount of the note. Even though it makes a charge for the accommodation, a bank will not discount a note unless it is amply secured for the full amount of the same. The position of the surety company in the executing of contract bonds is much the same as that of the bank in discounting notes.

When considering applications for contract bonds we keep in view all the facts and conditions presented, and, aside from the possibilities which underlie every business transaction, take no risk. Once our bond is executed, we are liable; the indemnitor to the contrary notwithstanding, for, as we have already explained, the obligee looks to us, and not to the indemnitor, and we must take chances with the latter in event of trouble.

Proposal Bonds.

Taking up the subject of proposal, or so-called "Bid" bonds, a great many agents look upon this form of bond as a formal affair without any actual liability to the surety, assuming that, if, upon the opening of bids, the principal is found to be successful, and the surety on the bid does not at that time care to become surety on the contract, the transaction is ended. This is not the case; if the contract is awarded, the surety will become bound for the faithful performance of the contract.

In executing the bid bond, the surety agrees, if the contract is awarded to the principal, to become bound for the faithful performance of the contract, or, in other words, to execute the contract bond, and in the event of the principal omitting, or refusing to execute the contract, to pay any difference between his bid and that of the successful bidder at the subsequent opening, which would then be necessary.

The difference between these two bids is apt to be considerable for if the successful contractor refuses to enter into the contract, the original bid must be too low. Thus a liability faces the surety at the very beginning. While it may be necessary in order to build up a contract business, to secure proposal bonds, it is important to give the same care and forethought to the proposal bond that is given to a contract bond. It is, of course, desirable to be in a position to secure the contract bond, and consequent large premium, but no proposal bond should be accepted, unless positive and satisfactory information is obtained that the financial standing and ability of the applicant is sufficient to save us harmless should any liability accrue because of his refusal or inability to enter into the contract.

Some proposal bonds fix the limit of liability and make the surety liable for liquidated damages in lieu of other damages to be proven. This form, while limiting the liability, is bad because the amount is never less than ten per cent and often twenty-five per cent of the bid, and consequently, a much higher liability than should be assumed for the nominal proposal premium. The added disadvantage of this form is that, upon default, the surety immediately becomes liable for the amount of the bond without any defense whatsoever.

Another form of proposal bond guarantees the performance of the contract and its completion. When this form of bond is found to be up for execution and is so executed, the premium should

be collected at once, because there will be no additional contract bond to be executed, the two being combined in one.

Maintenance Bonds.

The question of maintenance bonds has so many diversified features that it is practically impossible to determine that all such bonds are bad, or that all such bonds are good. There can be no splitting of opinions on the question that long-term maintenances are unquestionably hazardous, for the primary reason that while a contractor to-day may be amply able and willing to make good any defect appearing in his work subsequent to the completion of the contract, there can be no assurance that ten years hence he will occupy the same financial position as he does to-day. It is, therefore, too much of a gamble and too long a shot for a bonding company to assume these long-term maintenance bonds without securing marketable collateral as indemnification to be held until the expiration of the long-term period.

On the other hand, short-term maintenance bonds, while not desirable, carry less risk because defective workmanship is less likely to appear during the first three to five years after completion than subsequently.

In regard to maintenance, it is the practice in the vast majority of cases for the original bond to be drawn in such form as to cover both the contract and the maintenance period.

While both of these obligations are assumed under the same written document, it must be clearly understood that the completion of the contract has no reference whatever to the maintenance guarantee, and in consequence each must be treated as a separate and distinct obligation.

As to premiums on maintenance bonds, when the contract is to be completed within a short period of time and the maintenance is for one or more years thereafter, there appears to be a tendency on the part of agents to include both contract and first year's maintenance under one charge.

For example, where the contract is to be completed say in three

months and the maintenance is for five years, the tendency is to charge one premium for the contract and four years' premium for the five years' maintenance, apparently upon the assumption that the contract being quickly completed, the first year's maintenance should be gratis as covered by the contract premium. This is radically wrong, and the following rule should be adopted and lived up to:

First. Premium charged for the contract period irrespective of the length of time required in its completion, computed on an annual basis.

Second. The premium for the maintenance bond to commence from the date of the acceptance of the contract, and to be charged on an annual basis for the entire length of the maintenance period.

Franchise Bonds.

We receive frequent applications for bonds on behalf of individuals and nominal corporations to cover franchises granted by councils of various towns and cities for the construction of electric railroads, electric lighting and telephone systems, etc. This class of business is in itself unobjectionable when presented on behalf of fully-organized and satisfactorily-capitalized concerns, and if the franchise is a liberal one and free from unusually rigid conditions, we are prepared to execute the bond.

We desire, however, to call attention to the fact that in many instances the applications made for bonds of the character mentioned are from individuals, who, regarding the opportunity as promising, bring to bear the required influence and succeed in securing a franchise for one or more of the systems above mentioned. They have no intention of personally entering upon compliance with the requirements of the grant, but, as promoters, either organize a corporation with a nominal capital, or sell the franchise to others.

As the ordinances granting the franchises referred to are similar in their character, it is only necessary, in order to show the nature and extent of the liability the surety is called upon to

assume, to state that the life of the franchise is usually twenty-five years, during which term is involved not only the construction of the plant or system specified, but also guaranteeing the city or town against any losses sustained by reason of the maintenance and operation of the plant.

Manifestly, no surety company would be justified in entering upon such liability for so long a time unless the contracting company was, as already suggested, fully organized and had a capital in sufficient amount fully paid and, therefore, in position to maintain itself and conduct its operations successfully.

The mere fact that the individual promoters of the enterprise are men of good local standing, and disposed to faithfully carry out the obligations assumed, would not justify a surety company in accepting the risk in the absence of actual financial responsibility of an organized corporation, unless, of course, it was otherwise satisfactorily indemnified.

Agents should, therefore, become fully acquainted with all the facts in the case, and especially along the lines indicated, before accepting applications for such bonds, as otherwise the result will in all probability be a disappointment both to themselves and their clients.

Cities and towns usually require that all bonds accepted by them shall be drawn by their own law officers and when applications are taken for franchise bonds, a copy of the bond desired, as well as a copy of the ordinance granting the franchise, should in all cases accompany the application.

Supply Bonds.

Supply contract bonds are desirable because of the small ratio of loss, consequent upon the fact that when default does occur, the surety company can go in the open market and purchase the needed articles for not much more than the price bid by the contractor. In any event, the experience records show that the losses upon this class of business have been very light, and while the premiums are small, because the bonds are generally in mod-

erate amounts, yet, it is desired that as much of this business should be procured as possible from responsible manufacturers and dealers.

Objectionable Features in Contracts.

A very important matter, which should be given consideration by the underwriter in connection with the contract business, is the fact that almost every contract bond to-day provides not only for the satisfactory completion of the contract, but also agrees to save the obligee harmless from all loss or damage by reason of liens being filed against his property for labor or material furnished.

It should always be kept in mind that when a contractor, applying for a bond, expatiates upon the extensive credit which he has with material houses, etc., it is, nine times out of ten, not the financial condition of the applicant which enables him to secure the credit that he obtains from the material houses, but it is the wording of the bond, which assures to all persons who furnish material, and to all who sell their labor, that they will be paid up to the limit of the obligation; therefore, it follows that it is the surety which creates the extensive credit that the contractor claims, and not his financial condition or reputation.

The laws of a great majority of the States permit the filing of liens for material and labor furnished for any building or work, and makes the surety liable for payment of same.

It should also be borne in mind that, by an act of Congress, material men or persons selling their labor to contractors doing business with the United States Government are permitted to sue the surety in the name of the Government. Thus, it will be seen, that while liens do not lie against government work, the surety is none the less in as dangerous, if not a more dangerous, position, when its obligor does not liquidate material and labor bills than it would be under contracts existing between private parties.

Extreme care should be used in going over the specifications and contract, with the view of picking out undesirable features, and weighing such features against the good points of the contract itself, as well as against the financial ability of the contractor to overcome any possible difficulties arising therefrom. This especially refers to:

Patent infringement guarantees.
Damages per diem for non-completion at time agreed.
Liability for accidents to persons or property.
Insurance of the work, as erected, against fire.
And other undesirable features which very often appear.

The last two of these items can be properly taken care of by seeing that the contractor procures the necessary casualty and fire insurance, but the patent infringement and damages for non-completion cannot be taken care of in this way, thus the necessity for extra precaution, as above stated.

A particularly bad contract for the surety is one wherein it is specifically provided that the essence, so-called, of the contract, is TIME; and that no allowance will be made for time lost through strikes, or other delays, but at the same time, damages for non-completion at the specified date are stipulated in a given amount, which latter feature always follows the former. These contracts should be invariably avoided, unless the financial standing of the contractor fully warrants this excessive risk.

Bridge building and other similar work requiring caissons, dredging, sewer construction, tunneling, dam and dike building, filtration plants, railroad, or other construction involving tunneling, or underground works of any kind, are obviously extra hazardous contracts for a corporate surety to contemplate.

For additional information in regard to Contract Bonds, see Guide for Agents, page 60.

FIDELITY BONDS.

Fidelity bonds covering dishonesty amounting to larceny or embezzlement offer the greatest field in the surety line both for the Company and its agents. It is a class of business that is increasing rapidly, owing to the fact that officers of corporations, firms engaged in mercantile and manufacturing industries and men in every class of business who employ men under them are gradually waking up to the fact that, in order to keep abreast of the times, it is necessary to have all their trusted employes bonded in a reputable surety company. In these days of "frenzied finance" the stockholder soon loses confidence in a corporation that allows unbonded employes to handle large sums of money.

From the Company's standpoint, this class of business is one of the most profitable on account of the large aggregate volume of business written, which, being divided into comparatively small individual risks at commensurate rates, tends to keep the loss ratio reduced to a minimum and makes it the safest and most desirable line from an underwriter's view-point.

From the agent's standpoint it is the most profitable, for the reason that it offers the greatest field for an aggressive canvass, and when the business is once secured it is easy for the hustling agent to renew it from year to year for an indefinite period, thereby reaping the benefit of the annual premiums. While the result in single instances may appear small, owing to the bond not being of large amount, the aggregate of the number of bonds secured will be most gratifying.

Recently one of the general agents of the Company, a representative of several years' standing, visited the Home Office and in the course of a conversation commented on the apparent small amount of business transacted in the fidelity department. He stated that since State and municipal officials, employes of banks and fraternal orders, all of whose honesty is guaranteed, had been transferred to separate departments, there could be little left but

a few "bookkeepers and cashiers." He was very much astonished when shown the figures for the past year, which resulted from issuing bonds for the employes of individuals, firms, and corporations engaged in all classes of mercantile and manufacturing industries, and stated that he had overlooked these small bonds in his efforts to secure what he thought were the "cinches" for the agent on account of the large premiums, such as bonds required by large contractors, officials, and depositories, which only run for a limited length of time.

On the other hand, another of our agents, who had been representing the Company for a number of years, while at the Home Office a short time ago declared that he had made a specialty of soliciting fidelity bonds for the reason that he rarely lost the business after it had once been placed on the books, and that he was now enjoying a splendid income from the annual premiums, which were increasing considerably every year.

In soliciting fidelity bonds an effort should of course be made to secure the "cream" of the business. The space afforded in this article is not sufficient to enable us to enumerate the large number of classes of business for which we execute bonds guaranteeing against loss through dishonesty, so we will only give a brief summary of what we think the most desirable lines, following up with a list of prohibited business, which we have learned by experience is undesirable from a surety standpoint.

Entire office force of corporations or firms engaged in mercantile and manufacturing industries, such as presidents, treasurers, cashiers, manufacturers, bookkeepers, etc. The outside force, such as salesmen and branch managers, can also be carried with profit if a fair rate is secured and a careful investigation made of each individual risk through the former employer.

Officers of local building and loan associations, which are under the supervision of their own people, are desirable. National associations are not desirable, as it is impossible to place them under the proper supervision.

General agents of insurance companies who have a well-established business and report direct to the Home Office of the company which they represent, including officials, management, and office force are desirable.

Life insurance agents are not considered as desirable as fire insurance agents because the fire agent usually represents several companies and has a better established business, whereas the life agent represents only one, and in a good many instances accepts notes in payment of premiums, for which notes, if not paid when due and the agent is unable to make good, the insurance company frequently tries to hold the surety company.

United States Government officials form a very desirable class of business because of the strict supervision that the Federal Government exercises over all officials. These bonds are executed for the entire term of appointment and cannot be terminated before their expiration even when a new bond is substituted (with the exception of postoffice clerks), and for this reason care must be taken not to secure applications from federal officials or employes who have given bond. In such cases endeavor to learn when the existing term ends and make a strong effort to get the bonds that must be given for succeeding terms.

The bonds of subordinates of federal officials are usually given to the company that secures the official's bond, and this is a strong reason for making an unusual effort to get this class of business.

Federal officials required to give bond are as follows:

STATE DEPARTMENT.

Term of appointment four years.

Chief of Bureau of Accounts.
United States Consul General.
Vice Deputy Consul General.
U. S. Marshal Consular General.

TREASURY DEPARTMENT.

Term of appointment four years.

Disbursing Officers.
Supt. of Construction of Public Buildings.
Treasurer of United States.
Chief of Party, U. S. Coast and Geodetic Survey.

WAR DEPARTMENT.

Term of appointment four years.

Disbursing Officers.
Paymasters and Quartermasters.
Commissary and Ass't Commissary of Subsistence.

DEPARTMENT OF JUSTICE.

Term of appointment four years.

Disbursing Officers.
United States District Clerks.
United States Marshals.

NAVY DEPARTMENT.

Term of appointment four years.

Disbursing Officers.
Paymaster.
Assistant Paymaster.
Passed Assistant Paymaster.
Pay Inspector.
Pay Director.

INTERIOR DEPARTMENT.

Term of appointment four years.

Disbursing Officers.
Receiver of Public Moneys.
Register of the Land Office.
Special Agents.
Indian Agents.
Supt. of Indian Schools.
U. S. Surveyor General.
Mineral Surveyors.
Deputy Mineral Surveyors.
Pension Agents.

AGRICULTURAL DEPARTMENT.

Term of appointment four years.

Disbursing Officers.
Special Agents.

POSTOFFICE DEPARTMENT.

Except postmasters, the term of appointment is continuous until retirement, change in roster designation, or filing another bond.

Postoffice employes (including all employes in postoffice except postmaster himself), letter carriers, regular and substitute; rural letter carriers, regular and substitute. Bonds of the postmasters themselves are the only cases in which the Government will not accept corporate surety. Personal bonds must be given by postmasters, but the Company writes a form of indemnity bond to be given the personal bondsmen, fully protecting them from any loss they may incur from having signed the postmaster's bond. In this way the postmaster overcomes the embarrassment of having his friends assume the liability. The bond used in this case is executed upon our regular form and covers in every respect the liability assumed by the personal guarantors.

All bonds to the United States Government are written on a special form, which is furnished each appointee when the appointment is made.

Some States require bond as insurance against loss in the National Guard. These bonds must be filed by all commanding officers of the militia to cover not only the honesty of the principal but also any loss which might occur through the carelessness of the principal or any member of his command. The liability covers shortage in the arms, ammunition, equipment, etc., of the entire company, which is charged to the commanding officer. As a rule, this business is desirable on account of the high-class men elected officers in the State Guard.

Before a fidelity bond on the Company's form may be issued, a statement must be made by the obligee setting forth the terms and

conditions of the office or employment of the applicant. A form has been carefully prepared for this purpose, entitled form "C," with printed questions, so written as to elicit the information considered necessary in the light of a varied and considerable experience.

Where these questions are fully and intelligently answered, we are in a position to determine as to accepting the risk, and it cannot be too strongly impressed on agents to absolutely insist that this be done in detail. It is plain to see if it is neglected, even in any one particular, our aim is defeated, and this not only occasions delay, resulting in the loss of good business, but the reputation of the agent and the company materially suffers in consequence, as indicating carelessness or neglect in the handling of business presented.

Attention is also directed to the address by the Company on the form as follows: "The Company desires to have answers to the following questions, and the answers will be taken as the *basis* of the bond, if issued." This connection becomes further apparent by the wording of our bond to the effect that liability is assumed on the strength of any and all statements made to the surety by the obligee in connection with the employment or office of the principal. The extreme importance of the statement in this light becomes apparent where claim is made, and it is disclosed whether any changes were made without notice as demanded by the surety.

As the result of a careful supervision over all risks presented and comparison of results of premiums received with claims filed and paid, certain classes of business have been found to be unprofitable from a surety standpoint.

Where there is sufficient ground, in the opinion of the agent, to justify an exception, consideration will be given; in which case full data must be furnished, including the reason for such action. This is occasionally the case where there is a large financial responsibility or where by including one or two prohibited risks a large line of generally desirable business can be controlled.

To avoid unnecessary correspondence and the general annoy-

ance, not to say actual and material losses, occasioned by agents soliciting business which is afterwards rejected, all of which can be avoided, we enumerate herewith the classes of business coming under the prohibited or undesirable head:

1. Parties engaged in the insurance business, with the exception of general agents who report direct and are liable to the company, officials, management, and office force.

2. Parties engaged in industrial insurance excepting the officials, management, and office force.

3. Employes of jewelry houses, both inside and outside, retail or wholesale.

4. Collectors, unless when combined with the position of salesman on a straight salary, or in connection with a full line of good business.

5. Parties occupying the position of manager or agent to whom a consignment of goods is made and compensation is received on a commission basis, as in most cases our liability is desired to cover the value of such consignment in addition to loss against dishonesty.

6. Salesmen and collectors for sewing machine companies or installment houses, outside representatives of newspaper or publishing houses.

7. Agents or outside employes of liquor houses, both retail and wholesale.

8. All employes of packing houses.

9. Bonds in general for employes receiving compensation on other than a straight salary basis or where our liability is required to cover any of the conditions or terms of a contract between employe and employer, or where a special form of bond is required on a fidelity risk.

10. All employes of brokerage concerns, as it is a well-known fact that speculation and gambling in various forms are the causes for more defalcations than all others combined, and the employes of such houses are naturally thrown into a speculative atmosphere.

11. Parties located outside the jurisdiction of the United States or Alaska, as in case of a claim it is very difficult and expensive to follow up a defaulter.

For further information in regard to Fidelity Bonds, see Guide for Agents, page 18.

OFFICIAL BONDS.

The official department handles all bonds required of State, county, and municipal officials, as well as the bonds of their clerks and deputies.

In writing the bonds of officials who handle money, such as tax collectors, city and county treasurers, we require the parties bonded to be men of some financial responsibility. In some cases, however, we waive this requirement, provided, we are furnished with a bond of indemnity signed by indemnitors of undoubted financial responsibility.

It is a rule of this Company not to write the bonds of officials handling large amounts of money who are succeeding themselves in office unless we, THE UNITED STATES FIDELITY AND GUARANTY COMPANY, have previously been surety upon their bonds. This applies to the bonds of treasurers and tax collectors and all other officials who handle large amounts of money in their official capacity.

We found it necessary to adopt this rule owing to the fact that it is almost impossible to obtain absolute accurate evidence at the time of bonding an official that his accounts were correct for his former term of office, as experience proves that very often when an official's accounts are audited he procures the necessary amount of money at the time such an examination is made by borrowing the same for a few days only.

Further, it is the policy of this Company to execute the bonds of no treasurers who deposit their official funds in vaults instead

of in banks. We have found that this class of bonds cannot be handled profitably owing to the fact that the treasurer in depositing his funds in a vault has absolute control over them, and as a result there is not sufficient check on said treasurer's office.

In all cases where we are liable under our official bond for funds deposited in banks, we require that those banks furnish us with bonds of indemnity protecting us against loss on account of possible bank failure. The amount of the bonds will be named by the Home Office after taking into consideration the amount of funds handled by the official.

In reference to constable bonds, we have found this class of business very undesirable, and, accordingly, have decided not to issue any of these bonds.

We regard as desirable the bonds of minor city and county officials where little or no money is handled, and agents are earnestly requested to use their utmost efforts to secure as much of this business as possible.

In submitting applications for new bonds for a hold-over official handling money, where we have been previously surety upon his bond, it is necessary that a statement of the last examination of his accounts be sent to us at the same time, because we are unwilling to execute the new bonds until we have documentary evidence to show that the accounts of the official for his past term of office have been audited and found to be correct.

In the matter of rates the official department furnishes rate sheets in the different States. In some localities, however, where no special rates are formulated and in the cases of bonds not covered by the rate sheets special rates can be obtained by writing to the official department.

In some cases where the official bond is signed by personal sureties, we are requested to indemnify said sureties by a bond usually in a much smaller penalty than the amount of the official bond executed. In considering a proposition of this nature, we are obliged to take into account, in quoting a rate, the relative proportion of the indemnity to the official bond itself, and in

writing to us in regard to this class of business, our agents are requested to furnish full information as to the amount of the official bond, as well as the penalty of the indemnity bond required; also, the amount of funds handled by the official during the year. Under the indemnity bond issued, we are liable for larceny and embezzlement only.

Applications for official bonds should be submitted on our form "N.," and the applications of the clerks and deputies on our form "A."

For further information in regard to Official Bonds, see Guide for Agents, page 46.

RAILROAD BONDS.

Steam railroad, street railway, steamship, express, and, in fact, all transportation bonds are handled by the railroad and transportation department. They offer other great and very fertile fields for business, as do also the bonds of office employes of telephone and telegraph companies. On account of the large and extensive territories covered by such concerns, agents are instructed always to communicate with the railroad department if they can influence any of this class of business, or can assist the Company in securing it. The railroad department supplies forms of bonds to meet requirements of all such companies, and special features have been adopted in some of the different lines. Agents are especially requested to solicit the bonds of employes of street railway companies situated within their territories, for that is very desirable and lucrative business.

BANK BONDS.

From ancient times banking has been universally regarded as out-ranking all other commercial pursuits. Banks are the centers of influence in all communities, and from them radiate, like spokes from the hub of a wheel, the business enterprises of cities and towns.

Recognizing the power and influence of banks, surety companies have striven to secure their bonds not only as an advertisement but also as the means of obtaining the other bonding business which these institutions undoubtedly influence.

Being looked upon in smaller communities as centers for information respecting financial matters, banks are asked frequently by persons desiring bonds in judicial or other proceedings to recommend a surety company. It is, therefore, a self-evident proposition that the first efforts of an enterprising agent should be to secure the fidelity bonds of the banks in his territory, both, for their own value to the company and their widespread influence.

Banks and financial institutions are also discriminating in the matter of selecting the surety company whose bonds they will accept, because, as a rule, they pay the premiums and not the insured. They bring to bear expert knowledge in weighing the financial statements made by the various companies, and are thus enabled to determine which one offers the best protection.

Despite their recognized conservatism and intelligence, it is a matter of surprise that nearly one-half of the banks and trust companies either carry no fidelity bonds upon their officers and employes, or are still satisfied with personal surety. There is, therefore, much fertile soil still left in the banking field upon which the ploughshare of enterprising and persistent endeavor can be profitably employed. Our Company has now in force fidelity bonds upon more than three thousand financial institutions and we are, therefore, probably the largest underwriters of

such bonds. However, as there are about seventeen thousand banks and trust companies in the United States, it can be seen that we have only scratched the soil by our ten years' work.

The forms used for writing bank bonds are scrutinized closely by bankers, and it would, therefore, be well for our representatives to thoroughly familiarize themselves with each of the forms before attempting to discuss their provisions with prospective clients. In endeavoring to secure the applications of employes now bonded in another surety company, agents should remember that our short form "E." may be used, thus making it unnecessary for the applicant to answer the many detailed questions, as well as furnish the references required, on our regular application form "B. E."

For some years competition for bank bond business had been latent, but recently it has become somewhat fierce and aggressive owing to the attempt of a surety company which has hitherto enjoyed but little of this business to obtain a large volume of it not only through overhead writing but also by cutting rates. We note a tendency on the part of some of our representatives to reduce each year the premium rate upon renewing the bank bonds in force in their territories. We ask those agents to consider calmly a few pertinent facts. There are in the surety business certain expense and loss ratios which make the cost of writing bonds as easily ascertainable as the cost of manufacturing a pair of shoes or the cost of a coat.

The chimerical idea that all premiums received for bonds was pure gain has long since gone the way of other exploded theories, and the hard cold facts of experience have dispelled the glamor of false hopes and iridescent dreams of the past.

The agent who cuts the rate five cents per hundred, claiming that he either did it to meet competition or to please a customer, should realize that if all of our representatives pursued a similar policy the premium receipts of the bank bond department would be so materially reduced as to leave absolutely no profit to the Company.

It should also be remembered that in an auction of rates, there is no limit, and in attempting to meet the cut-throat tactics of the opposition it is quite easy to reduce rates to a merely nominal sum.

One of the large surety companies, whose volume of bank business is nearly equal to our own, never writes a fidelity bank bond at less than forty cents per hundred. Shall we infer that the agents of that company are superior in influence, enterprise, and courage to our intelligent corps of energetic, tried and true representatives? We have the business on our books at an average of over thirty cents. Why not adopt the motto of the British Empire, "What we have, we will hold," while fighting gallantly for our full share of new bonds being written!

The forms upon which bonds in this department are written, are the "O. S.," which is for individual officers or employes; "L. L.," a schedule for two or more, and "B. S.," the American Bankers' Association's copyrighted form, which we issue exclusively for members of that association.

As the tendency of bankers is toward the use of form "B. S.," due, firstly, to the powerful influence of their great association, and, secondly, to the recommendation of the national bank examiners, we advise agents, whenever it is expedient to do so, to accept the same rate for form "L. L." as for form "B. S.," although we are clearly entitled to a rate of at least five cents higher on the latter form because of certain of its provisions which we regard as inequitable.

It is probably needless to add that blanket bonds are now entirely obsolete and no longer written by our Company.

Depository bonds, guaranteeing the safety of deposits in banks or trust companies, are increasing in popularity, and the movement for their use is being fostered and encouraged by legislation aimed at having all State, county, and city funds protected by corporate surety.

The risk of a surety company on a depository bond is a form of financial guarantee and equally as hazardous an undertaking

as the endorsement of commercial paper. Whether such a risk may properly be assumed, and to what amount, can only be determined by an analysis of the financial condition of the bank and the correctness of the business methods that characterize the management of the institution.

Our rule is to entertain applications for an amount equal to one-fourth of the capital, surplus, and undivided profits of banks or trust companies. We have reinsurance facilities by which we can take care of larger offerings as an accommodation for our agents, but we prefer to entertain applications for amounts not in excess of our rule. We carry no depository bonds upon any bank in excess of $300,000 liability.

For further information in regard to Bank Bonds, see Guide for Agents, page 23.

INTERNAL REVENUE AND CUSTOM HOUSE BONDS.

All bonds running to the Federal Government through the Internal Revenue Bureau and the Customs Department of the United States Treasury are handled by our Internal Revenue Department, which was organized in the spring of 1904 for the distinct purpose of developing the extensive field in which is to be had a large volume of this highly-desirable business.

With a view of emphasizing the importance of this branch of our business, we desire to point out in some detail the number of bonds required not only by the Internal Revenue Bureau but also by the Customs Department of the Treasury. For instance, the internal revenue regulations require that a surety bond be filed not only by all internal revenue collectors, as well as their deputies, cashiers, and clerks, but also by division deputy collectors and storekeeper-gaugers, who perform their work in the field. When it is considered that there are sixty-three internal revenue districts throughout the country, some conception may be had of

the extent of this field. As a matter of information, we would say that while the collector and storekeeper-gauger gives bond to the government, all other employes give bond to the collector of the district in which they are employed.

Apart from these *official* bonds, however, the internal revenue regulations require bonds of distillers, brewers, cigar, tobacco, and snuff manufacturers, as well as the makers of oleomargarine.

There are two kinds of distillers, classified as grain and fruit. Grain distillers operate throughout the year, while fruit or brandy distillers run during the summer and fall months when fruit can be had. Grain distillers use a variety of bonds in their business: an annual distiller's bond, annual warehousing and monthly warehousing, transportation and rewarehousing, and exportation bonds. Fruit distillers give an annual distiller's bond and when occasion requires use transportation and special bonded warehouse bonds.

All this class of patronage is very desirable with the exception of fruit distillers' bonds and small grain distillers. We do not approve of the execution of fruit distillers' bonds (Government Form 30½) unless the applicant is of good moral character, intelligent, and the owner of real estate in fee simple, unincumbered, and worth at least double the amount of the bond. This should be borne in mind, as its importance cannot be exaggerated.

Small grain distillers are much more liable than large enterprises to have levied against them assessments, growing out of ignorance, misunderstanding, and casualties, and unless they possess real and personal property other than the distillery premises (which in itself is liable to forfeiture) there is danger of loss to the company in writing their bonds.

In order to safeguard the interest of the Company and its patrons on all these undertakings, our counsel at Washington, Hon. Robert T. Hough, is constantly engaged in looking after internal revenue cases before that bureau. In the event of any trouble, expert advice and prompt attention is necessary in order

to get relief from burdensome assessments. These facts should be understood by our agents and by them brought to the attention of present and prospective patrons.

Custom house bonds also embrace a large and varied class of undertakings. Official bonds must be filed by collectors of customs, surveyors of customs, naval officers of customs, deputy collectors and inspectors of customs, cashiers and clerks in custom houses and the offices of surveyors of customs. The collectors, surveyors, and naval officers give bond to the United States, while all other employes in this service are bonded to the collector or surveyor under whom they serve. Besides the bonds which they themselves must file, collectors and surveyors have to approve all warehouse, transportation and export bonds, which embrace upwards of fifty distinct kinds of bonds. All custom house bonds have a catalogue number, and these bonds are furnished the collectors by the Secretary of the Treasury, in blank bound volumes, so that in their execution it is necessary for the agent to go to the custom house and there attach the Company's seal to the bond desired.

The primary object of the agent should be to endeavor to procure the bonds of the collector, surveyor, and naval officer. If he is successful, it will afford him prestige in the community with the importer, manufacturer, capitalist, and the custom house broker who acts as attorney for those who are required to furnish such bonds.

There are 122 collectors and 44 surveyors of customs, each of whom have a large number of employes. Many of the collectors are located in cities and towns along the Atlantic and Pacific Coasts; others are in the large inland cities, situated on the border of our great lakes and rivers, while a few are in the cities and towns of the great West between the Rocky Mountains and the Pacific Coast.

It can be asserted, and truthfully, that our Company is the pioneer guaranty company of the country to make a specialty of this business and offer its services to the general public needing this character of suretyship. Like unto our internal revenue

branch, it offers an immense field for development. It has been well said, and proven too, that the surety business depends for its continued growth and development on the gradual extinction of personal surety; it is, therefore, clearly to the interest of the surety agent to employ all his talent and energies in impressing upon those who require internal revenue and customs bonds the superior advantages of corporate surety over the obsolete individual bonding system.

For further information in regard to Internal Revenue and Custom House Bonds, see Guide for Agents, page 38.

FRATERNAL ORDER BONDS.

There is no more inviting field for wide-awake agency work than that of securing contracts for bonding officers of supreme and subordinate lodges or councils of the great fraternal orders, of which there are more than 150 throughout the United States. In fact, there is hardly a city or town of any size throughout the country that has not one or more subordinate lodges of the various fraternal orders.

Personal surety has dominated this field in the past, but with such unsatisfactory results that to-day corporate surety has no warmer friends than the leading spirits in the fraternal orders. Only a few years ago Mr. William M. Narvis, the Grand Master Workman of the Ancient Order of United Workmen in Iowa, declared in his annual report that bonds with personal sureties are not, as a rule, worth the paper upon which they are written.

Indirectly, the soliciting of fraternal order business very often opens up opportunities for the writing of fidelity, judicial, and contract bonds, for it must be remembered that the membership of the various orders is made up of men in all walks of life. Therefore, it is clearly to the interest of the surety agent to make a determined effort to secure the applications of the officers of

these orders, because he will thus be enabled to cultivate not only their friendship but also that of the other members, and whenever they find it necessary to give or require bonds he will more than likely get the business.

Especial efforts should be made by those agents in whose territories the supreme and grand officers of these orders are located to make a contract to bond all the officers under one schedule bond, which has been aptly described as "business-like and comprehensive, attractive and labor-saving." Under this plan, the cost of bonds for each lodge or council is much less than when each lodge or council secures its bonds direct.

Even though the premiums on fraternal order bonds are comparatively small, we regard the business as desirable, for experience has proved that with the proper safeguards it is a profitable line. We are, therefore, anxious to obtain as much of it as possible, and to that end would urge every agent in the service of the Company to strive not only to renew all bonds now in force by looking after renewals at least thirty if not sixty days before their expiration, but also hustle for all new bonds which may be offering.

We appreciate the fact that in some parts of the country competition for fraternal order bonds is very keen, and though it is our policy to maintain rates we do not intend that competitors shall take from us business now on our books. Agents should, therefore, communicate with us in regard to the business, giving, fully, the conditions as they exist in their respective territories. Under no circumstances, however, will we consent to a reduction in the rate which we have fixed for social organizations and those labor unions not included in our prohibited list.

For further information in regard to Fraternal Order Bonds, see Guide for Agents, page 26.

BURGLARY INSURANCE.

Burglary insurance is beyond question not only one of the most important but in cost the most reasonable protection which can be secured.

Experience has taught, as shown by the statistics correlated, that the risk of burglarization cannot otherwise be eliminated. In the case of banks not only are the funds and securities committed to the officials made secure, but our policy also covers the damage to property resulting from explosions or exploitation. The great danger from daylight hold-up is also averted.

It is a matter of common belief that since the introduction into general use of nitro-glycerine for safe-blowing the way has been made easy for burglarious incursions, which may be so effective as not only to embarrass but paralyze and possibly result in the wrecking of institutions.

No official is justified in thus hazarding the interests confided to him, when complete protection is offered by a strong and well conducted company, able and willing to repair a loss, for a minimized premium cost, which is relatively cheaper than any other item that enters into the conduct of the bank.

Statistics also prove that bank burglaries are largely on the increase—the present season is an active one in this "industry"—and there is every reason to fear that the success obtained is unfortunately encouraging others to embark in the hazardous but lucrative pursuit.

With such an opportunity within the agent's reach, to extend the business of his company, it would be unnatural to expect a different result than success.

Special agents have a still greater advantage in canvassing their territory, and being brought in contact with promising solicitors among those serving at the various agencies, who through their efforts and influence can be trained for the Company's service in any untilled field, and be a getter of those banks not on the Company's books.

Too much stress cannot be laid upon the necessity of a complete description of safes and vaults, not only in justice to the Company, but to the assured, for the reason that the discounts from the gross premium can only be computed when all the conditions are given; and if a competing agent gets in his application more complete details the risk may be thrown his way, for the reason that he knows of a discount that the less vigilant solicitor overlooked.

Messenger Hold-up.

The matter of "Messenger Hold-up" would seem to be of steady growth, as officials of banks, trust, and railroad companies, mines and miners, department stores for use between branches, etc., are beginning to realize the small cost for protection of large values necessarily handled between their various points of business.

With cities contiguous to each other, and having large exchanges, it has been found convenient and advantageous to employ messengers throughout banking hours, rather than an express company once or twice a day, at far greater cost.

The more this great convenience is looked into, the more certain is it to be adopted. It commends itself so to one official that he mentions it to another, thus extending its use, and the burglary company receives the benefit of this co-operation.

Residence Burglary.

For the protection of the family valuables, it would seem now-a-days a positive neglect, and one much to be regretted in the event of loss, if a householder fails to cover them with a burglary policy.

Recent experience has proven that incursions are made where they are least expected—into rectories and physicians' residences, while the occupants are off ministering to the sick, the desolate, and the dying.

Clean sweeps have been made by these housebreakers who can

as readily enter any residence surreptitiously as the owner can with his latch-key. When not restricted as to time by the absence of the family (policies allow six months non-occupancy without charge) even the rugs upon the floors have been spirited away and the home so despoiled as to compel abandonment by the family.

The United States Fidelity & Guaranty Company has subject to its immediate call the Pinkerton Detective Agency, when a loss is reported by the assured, for whom it frequently recovers, and to whom it restores, priceless heirlooms which are protected at the small cost of its residential policies, prompt action enabling it thus to seek in the pawnshops, the haunts of the professional thief or the paths of the amateur who might be suspected of implication, all without cost and frequently by means otherwise unattainable by the assured.

It is, therefore, most apparent that the need for protection is universal, and a failure to invest the small amount of premium charged is the result of ideas of false economy, and must prove unwise and regrettable.

Mercantile Risks.

With the exception of the prohibited list, which has been made only because of the belief that the risks are almost prohibitive (certainly unprofitable), on account of hazard (sweat shops, cloak and shirt makers, cigar makers, or other trades carried on in living rooms or apartments, junk shops, second-hand stores, clothing stores, manufacturers of clothing, either for men, women, or children, tailoring shops, furriers, handlers of silks, low grade of saloons, notion stores, boot and shoe stores, and pawn brokers), this line of business still presents an open and wide field for persistent effort on reasonable lines.

Two essentials only are to be considered, viz., the physical and moral hazard. Unless both are good (we consider the location in city, the character of locks, barred windows and doors, such as are known to be capable of resisting attack) a policy should not

be issued. The character and standing of the would-be assured must be such as to commend the business to a conservative company.

Mercantile Safe Insurance.

All such risks are desirable when the physical and moral conditions are good, and the town in which the risk is located contains more than one thousand inhabitants.

Experience with safe insurers of all kinds has proven decidedly unprofitable in small towns, by reason of the fact that the losses have exceeded the premiums received.

Briefly stated, the history of the Burglary Insurance is comprehended within the short period of seventeen years. It was of Scotch origin, and has been of steady and remarkable growth because of the fact that experience has demonstrated that there are now four times more burglaries than fires to startle and annoy the human family, and the money loss sixty per cent greater.

The growth of crime is a matter of general comment, and out of the band of criminals there is naturally evolved the burglar.

Unfortunately, so far not one out of twenty of the safe and house-breakers are caught, so the ratio of increase is rising, the danger therefrom increasing, and, so far as possible the risk should be combatted.

For further information in regard to Burglary Insurance, see Burglary Guide for Agents.

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TITLE